

Jobless benefit changes sacrifice workers for corporate profits

Shorter benefits and lower wages leave lowans out to dry as they seek new work

By Sean Finn, Policy Analyst

Unemployment insurance was created for the common good of all – employers and employees alike – and allows Iowa to attract and retain top talent. Changes to unemployment insurance advancing in the House and Senate in HF 2355 reject this intent and instead give a double dip of favoritism for businesses. Put forth as a solution to the workforce shortage, these efforts would cut unemployment insurance benefits for workers in our state while failing to address the root issues of the workforce shortage.

Deflated wages mean lower expenses for businesses

The legislation would require recipients of unemployment insurance (UI) benefits to accept lower-paying jobs. Take, for example, a carpenter making a family-supporting wage of \$30 per hour who is laid off through no fault of their own. Under the current system, the unemployed worker may turn down jobs offering a lower wage for five weeks; after that, a worker turning down a job offering 65%-75% of their former wage is disqualified from benefits (depending on duration of unemployment; see table).

Under the proposed changes, the worker would be required to accept a lower wage after just one week of being unemployed. After two months, turning down an entry-level office job offering \$18 per hour cuts off benefits – even though this is not enough to support the worker’s family. This is the equivalent of taking a yearly pay cut from \$62,400 to \$37,440.

| Current system | Weeks unemployed | Proposed system |
|----------------|------------------|-----------------|
| 100% | 1 | 100% |
| | 2 | 90% |
| | 3 | |
| | 4 | |
| | 5 | |
| 75% | 6 | 70% |
| | 7 | |
| | 8 | |
| | 9 | 60% |
| | 10 | |
| | 11 | |
| | 12 | |
| 70% | 13 | N/A |
| | 14 | |
| | 15 | |
| | 16 | |
| | 17 | |
| 65% | 18 | N/A |
| | 19+ | |

This is dip No. 1 for businesses, which could offer less competitive wages as a result. If workers who lose their jobs (through no fault of their own) must take low-wage jobs or go without income, low-wage employers will see an influx of workers who have no other choice. This allows employers to suppress wages and radiates through the labor market, as companies look to their surrounding competitors to set wages. Ultimately, this takes power away from workers and adds to corporate profit margins.

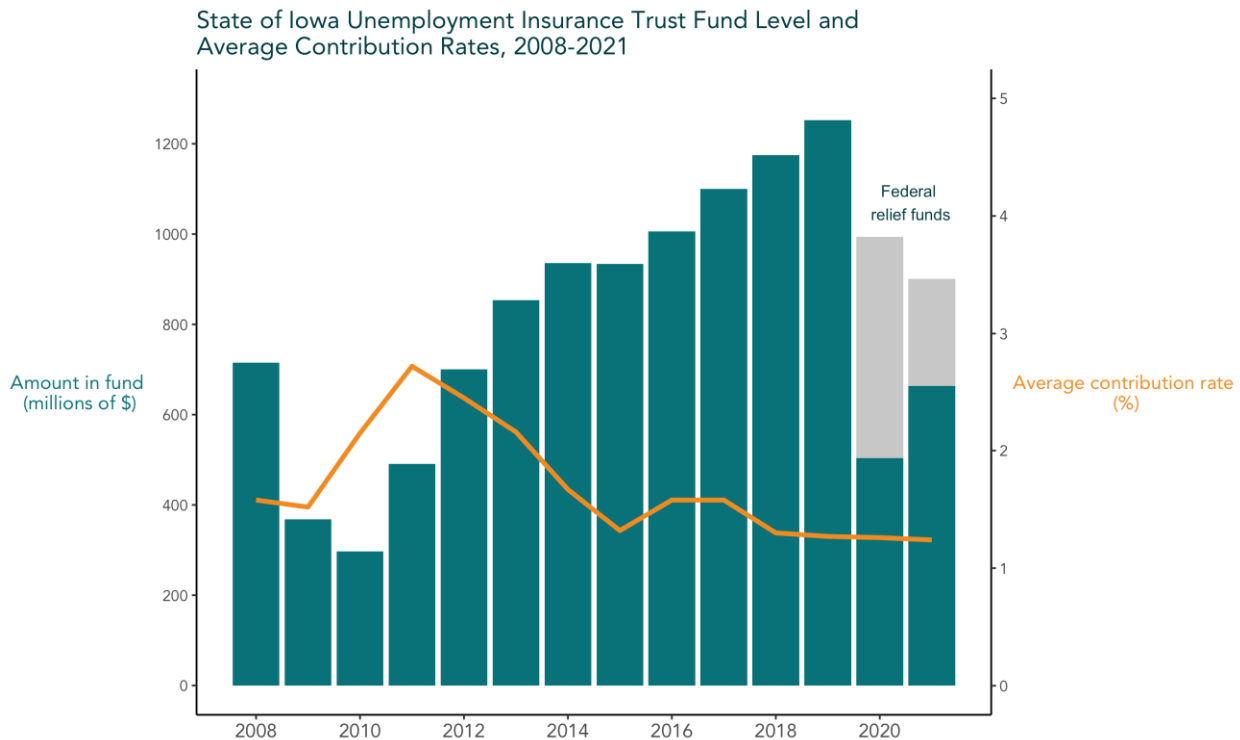
To learn more about unemployment insurance and related issues, contact policy analyst Sean Finn at sfinn@commongoodiowa.org or visit www.commongoodiowa.org.

Padding the trust fund with federal aid and unpaid benefits lowers business contributions

The state's unemployment insurance contribution system is rather complex and adjusts tax rates for businesses based on several state- and business-related factors. While each business' tax rate is based on how many former employees have received unemployment insurance benefits, the overall rates for the state fluctuate based on the funds available for benefit payments. Currently, we are on Contribution Rate Table 7 of 8, meaning current rates are in the second-lowest tier.

Governor Kim Reynolds twice directed federal relief money to the trust fund instead of using that money for direct aid payments to lowans suffering the consequences of the pandemic and recession.¹ Both of those transfers were unnecessary to sustain UI benefit payments; in fact, she simultaneously cut off additional weekly benefits from the federal government.

A look back to the previous recession provides helpful context. In the 2009-2010 recession, the trust fund sank to 42 percent of its pre-recession level. It fully recovered within two years, after triggering a relatively small increase in contribution rates.² By the end of 2012, the balance was back up to \$700 million, and a year later had risen to \$854 million. The average contribution rate had fallen back to its pre-recession level by 2014.



While the pandemic recession of 2020 was deeper, it was short-lived. Without the fiscal relief funds, the trust fund balance would have fallen to 40 percent of its pre-recession (2019) level. But it recovered much of that in 2021 and would have continued making a steady recovery even without the injection of \$727.5 million in federal relief funds.

So why was so much of Iowa's relief funding used to pad the Trust Fund balance instead of supporting the people of Iowa with financial assistance, affordable housing initiatives,

broadband expansion, affordable child care and other intended and allowable uses? Here is the second dip for businesses. Despite UI contribution rates already being in the second-lowest tier, lowering them even further appears to be the goal (even though it only lowers the top rate from 7.5% to 7.0% – a difference of just \$174 per employee per year for the 5% of businesses that pay the highest rates).

And if padding the fund with federal relief money isn't enough, the Legislature has passed additional measures to benefit companies. By drastically cutting the duration of unemployment insurance benefits, as both the House and Senate would do, and implementing a one-week waiting period, which is still under consideration, Republicans would pay out close to \$100 million less in benefits per year.³ With the trust fund already in a healthy state, this would allow the fund to inflate even further, likely pushing the state to Contribution Tax Table 8 and lowering taxes on businesses.

While reducing business expenses is not a problem on its own, this double-dip method of doing so is deeply flawed. It is damaging to the state's workforce and contrary to the purpose of unemployment insurance. Republicans are illustrating a profoundly skewed priority for corporations over hard-working Iowans. To ensure the long-term health of our state, we must protect, respect, and invest in our greatest asset – our people.

¹ The Governor transferred \$490 million in Coronavirus Relief Funds to the UI Trust Fund in June 2020, and another \$237.5 million from the State and Local Fiscal Recovery Fund (created by the American Rescue Plan Act) in 2021.

² <https://data.iowa.gov/State-Government-Finance/Iowa-UI-Contribution-Rate-Table-and-Average-Tax-Ra/qmkd-wa33/data>

³ Legislative Services Agency, Fiscal Note on Senate File 2275: <https://www.legis.iowa.gov/docs/publications/FN/1287385.pdf>

Common Good Iowa is a nonpartisan, nonprofit organization built on the collective experience of the Child and Family Policy Center and Iowa Policy Project.

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